WHAT YOUR SECOND-IN-COMMAND *REALLY* THINKS

# Inc.®

THE MAGAZINE FOR GROWING COMPANIES

## 'HANDS ON'

**39 IDEAS YOU CAN USE**


Sales Commissions That Motivate 69

Picking the Best Loan 73

How to Make Incentives Work 79

Defending Against Audits 86

Strategies for Cutting the Rent 87


*AND MORE!*

# BOOKS THAT TRANSFORM COMPANIES

## THE SMART CEO'S READING LIST

Page 30

## BUSINESS FOR SALE: Small-Town Newspaper

JULY 199


CONG INFO SERV COMPLIMENTARY
CRI ACQUISITION M130
E WEST HWY 19007
SDA MD 20814-3319

0144FXXXXXXXXXXXXALL FOR STATE
0452OWCSRI98 2846054I 4D


0 884265 7 02748

# CONTENTS

## FEATURES

**30** INC. COVER STORY
**Books That Transform Companies** BY LESLIE BROKAW
Why the crew at Web Converting—from top managers to shift workers—is meeting for an hour every week just to read
**Plus: The Smart CEO's Reading List**

**42** **Looking Out for Number Two** BY BRUCE G. POSNER
Sharing responsibility and trust with another manager is never easy, especially when it's *your* company. But failure to create an effective working relationship with your second-in-command could spell disaster

**48** **The Gamble** BY JOHN CASE
What happens when a small, comfortable, family business bets everything on a grab for the mass market?

**57** GOOD FORM
**The Smart T&E Expense Report** BY JAY FINEGAN
You *can* trim travel and entertainment costs—if you pay attention to your reporting system

**62** ANATOMY OF A START-UP
**Educating the Market** BY ELIZABETH CONLIN
With Education Alternatives Inc., John Golle is determined to apply the ABCs of good private-sector management to the public-school system

## HANDS ON

**69** **Sales and Marketing** EDITED BY TOM RICHMAN
Sales commissions that motivate • Cause-related marketing • 900 numbers

**73** **Banking and Capital** EDITED BY BRUCE G. POSNER
How to find government financing • Spot factoring • Picking the best loan

**79** **Managing People** EDITED BY ELLYN E. SPRAGINS
Random incentives • Workers far afield • Employee-initiated appraisals

**83** **Financial Strategies** EDITED BY JILL ANDRESKY FRASER
Covering foreign risks • Performance unit plans • Recession-proofing ideas

**87** **In the Office** EDITED BY ROBERT A. MAMIS
How to negotiate a lease • Safe VDTs • The lowdown on coffee services

**90** **The *Inc.* Network**

## DEPARTMENTS

**13** **FYI**
**16** **Letters**
**22** **New Businesses**
**25** **Hotline**
**102** **The American Dream: Business for Sale**

INC. COVER STORY

**30 Robert Fulton**
Using ideas from books to build a better company

**42 Second Fiddles**
What it's like to be a company's second-in-command

**87 Marisa Manley**
The keys to successful lease negotiation

COVER PHOTOGRAPH by DAN BRYANT

# Hands On

## SALES & MARKETING

*Mike Duffy finds that rolling quotas keep revenues flowing.*

COMPENSATION

### *Commissions That Smooth Out Sales*

MIKE DUFFY, THE NEW VICE-PRESIDENT OF SALES AT Software 2000 Inc., inherited a common sales manager's problem: too many of the company's sales—fully half, in fact—closed during the company's last fiscal quarter.

Annual sales were growing nicely for the privately held computer-software developer based in Hyannis, Mass. Sales rose from $20 million in 1988 to $28.6 million in 1990. But lumping most of the sales into the final quarter—and a good part of *those* into the final month—caused a hardship for the rest of the company.With every sale came a demand to service the new customer. "We couldn't keep up with the growth spike at the end of the year," says Software 2000 president Doug MacIntyre.

The spike was only partially a function of customer demand. It was also a consequence of the company's sales-commission structure. Like a lot of companies that rely on a field sales force, MacIntyre motivated his people by raising their commission rates on sales exceeding quota—the more a salesperson sold in a year, the higher the commission rate on that year's sales. So the incentive was to close as many sales as possible before the end of *(Continued on next page)*

RESOURCE

### *Are 900 Numbers for You?*

**You know that if the government wants to regulate 900, or pay-per-call, phone services, they must be good. The possible uses—ranging from software companies using 900 numbers to bill for customer service, to direct-mail merchants using them to qualify leads—continue to grow. If you want to learn more about how your business can benefit from 900 numbers, call (900) 463-6839 for a 13-minute message that costs $9.95 and gives you a quick history of the interactive telephone industry. It also automatically puts you on the subscriber list for *InfoText* magazine—which is free—to keep you current on the latest applications, industry trends, upcoming conferences, and books.** ***—Teri Lammers***

SALES PROSPECTS

### *A Good Name Is Hard to Find*

LOOKING TO CONTACT the *real* decision makers at companies? So are reporters who cover your industry. And when they find them, they usually quote them. You can compile a strong list of qualified buyers simply by reading.

Margaret Rodenberg, vice-president of sales and marketing for $7-million Viteq Corp., a Lanham, Md., maker of uninterruptible power supplies for computers, does just that. She goes through the same business publications her potential customers read, culling names as she goes. "It's one way to build up your list," she says. And when she contacts the prospect, she has a natural icebreaker: "I read your remarks in the latest issue of . . ." ***—T. R.***

### IN THIS SECTION

**COMMISSIONS THAT SMOOTH OUT SALES**
*How to motivate your sales force with monthly rolling quotas*

**RESOURCE: ARE 900 NUMBERS FOR YOU?**

**A GOOD NAME IS HARD TO FIND**
*Buyers are as close as your trade magazines*

**TRAINING CUSTOMERS TO BUY**
*How to use a seminar to increase sales*

**CAUSE-RELATED MARKETING**
*Link your product with a cause to develop loyal customers*

**Edited by Tom Richman**

PHOTOGRAPH: MARK ALCAREZ

*(COMPENSATION, from page 69)*
the year, while the salesperson could still earn the highest commission rate.

To change their sales reps' behavior—and to smooth out the company's sales and production load—Duffy and Mac'ntyre revised the commission structure.

Now the commission-rate multiplier changes monthly in proportion to the rep's performance—total actual divided by total quota—over the previous six months. That means that the sales rep's performance *this* month will affect *future* commission rates, but the current month's rate is strictly a function of past performance.

The purpose of this "rolling quota" compensation plan is to keep sales at or above quota *every* month. The result is a smoother, more predictable revenue flow and the ability to better predict the need for customer-support services.

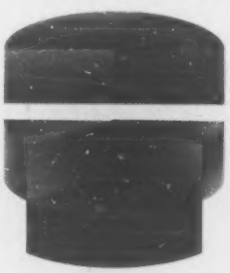
Why a *six*-month rolling quota? According to Atlanta consultant Warren Culpepper, who helped Software 2000 design its new system, the length of the period depends in part on the length of the company's typical sales cycle. If closing a sale normally takes 90 days, you want the period of your rolling quota to be longer than that. Ideally, says Culpepper, you want the period to cover enough sales to provide some consistency over time. But if you make the rolling-quota period too long, salespeople will find it difficult to affect their commission-rate multipliers in a reasonable length of time.

When kicking off a rolling-quota plan, you must start everyone out with an assumed past performance. Start with numbers somewhat lower than you actually expect. If your real monthly quota is, say, $100,000, and you're going to calculate your average over six months as Software 2000 does, you might assume each rep met an $85,000 quota in each of the previous six months. That way, in the early months of the new system salespeople have only to hit their quotas to kick their commission rates up a little. They'll come to like the new plan sooner.

The most common error people make in designing plans like this, says Culpepper, is to include the current month in the rolling average. Don't do it. That allows a sales rep to affect the rate paid on *this* month's sales—precisely what you're trying to avoid. —*T. R.*

### *How Salespeople Spend Their Time*

*Breakdown of an average 47-hour workweek*


Selling face-to-face:
14.1 hours, or 30% of time
Selling over the phone:
9.4 hours, or 20% of time
Administrative tasks:
6.6 hours, or 14% of time
Service calls:
6.1 hours, or 13% of time
Waiting / traveling:
10.8 hours, or 23% of time

*Source: "Twenty-sixth Survey of Sales Force Compensation," a survey of U.S. companies, nearly three-quarters of which had sales less than $50 million. The Dartnell Corp., Chicago, 1990.*

*Lynda Milligan hooks new quilters with seminars.*

**SEMINARS**

## *Training Customers to Buy*

THERE ARE 103—WE'VE counted them—reasons to hold customer-training seminars: visibility, prestige, and market feedback pop to mind. But they all come down to just one reason: sales. For lots of growing companies, seminars turn out to be a cost-effective way of spending limited marketing dollars.

For instance, The Great American Quilt Factory Inc., a $1.2-million single-store Denver wholesaler and retailer of quilting materials and literature, holds seminars primarily to expand its market—by hooking new quilters and teaching vets new techniques.

Rockford Corp., a $51-million Tempe, Ariz., company that produces high-performance audio components, holds seminars to train the middlemen—the retail salespeople and installers—who influence retail consumers' choices.

Both programs have been successful in boosting sales, in part because they adhere to some basic guidelines for running effective seminars:

• **Define your costs and benefits.** What do you expect to get out of a seminar program? Great American looks to cover only its out-of-pocket expenses with seminar fees. Rockford's seminars are run purely at the company's expense and are budgeted at about 1% of sales. But Ronald Trout, Rockford's vice-president of product development, considers that a bargain: "Just the stuff I learn in class about my competitors makes it worthwhile."

• **Gear your seminars to those who really influence your industry.** While its deep-pocketed competitors, such as Kenwood and Pioneer, spend money on consumer advertising that brings would-be buyers into the stores, Rockford concentrates on winning over retailers. "It's the dealer who largely determines what customers buy," says Trout. So the Rockford Technical Training Institute (RTTI) seminar program seeks to win dealer loyalty by teaching salespeo-

*(Continued on page 72)*



CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK; PHOTOGRAPH: STEPHEN COLLECTOR

If This Were Your Ad...

**You'd have reached millions of risk-takers with the enthusiasm, operating capital and business experience to make your franchise successful.**

Each month, 2.45 million Inc. readers devour our pages for ideas and opportunities that can build their financial portfolios.

And their confidence in Inc. editorial extends to the advertising in Inc.: 70% of our subscribers say the fact that an ad is in Inc. increases the credibility of the message!

So, if you'd like to give this quality audience a good idea, talk to them in our Business Opportunities Sections and special April, September and December Franchising Sections. They're ready to listen.

**Contact:**
**Mary Kaye Milmoe**
**Inc. Business Opportunities**
**38 Commercial Wharf**
**Boston, MA 02110-3883**
**(617) 248-8276**

Inc.



*(SEMINARS, from page 70)*
ple how to design car-audio systems, and shop people how to install them.

• **Make sure the right people attend.** Asking attendees to pay is a good way of guaranteeing interest and commitment. But if there's no fee, impose some other condition of attendance. To attend a Rockford seminar, for instance, you have to be recommended by one of the company's sales reps.

• **Demand attendees' undivided attention.** Don't allow business matters to interrupt. When Rockford initiated its seminars, in 1986, it didn't have the prestige that would allow it to make a no-interruption policy stick when it held seminars in customers' plants. So Rockford decided to bring customers to Tempe for training, where interruptions would be less of an issue.

• **Make it challenging.** Once the seminar is under way, make demands on attendees' concentration and stamina. Great American will sometimes hold all-night quilting seminars—6 p.m. until 6 a.m. "They're rough, but they're fun," says Lynda Milligan, Great American's co-owner, "and you can establish a rapport that doesn't come in a two-hour class." *—T. R.*

PUBLIC RELATIONS

## *Cause-related Marketing*

DONATING YOUR PRODUCT OR service to charity events can be an inexpensive, effective way to get it sampled by the public. But if you're looking for more than a sales spike from one-shot giveaways, why not link your marketing strategy with that of a compatible nonprofit organization? You can develop a loyal customer base using long-term but very affordable campaigns.

Here's the anatomy of one alliance that cost very little but has paid big dividends to both parties.

**The company:** Razcal Corp., of Wayland, Mass., with about $2 million in sales. Founded in 1988, Razcal makes and sells a raspberry-lime soda for the teen market.

**The marketing challenge:** Razcal needed to be more clearly and positively identified with and by its target market.

**The cause:** Mothers Against Drunk Driving (MADD). Not only does MADD target teens, it also addresses the issue of beverage consumption. It reaches teens within the school setting, providing Razcal with a captive audience in an environment free from the advertising clutter of competitors.

**The alliance:** For years MADD had tried to get schools to participate in a poster contest with an anti-drinking theme, but few schools signed up. Razcal offered to pay for and execute a slick direct-mail campaign for the poster contest, which went to 4,000 high schools in New England. Three thousand students representing about 500 schools participated in the contest. Razcal provided prizes for the winners, as well as music and plenty of soda for sock hops at which the winners were paid tribute.

**The cost:** The mailers to school principals cost Razcal $4 each. Kits for holding poster contests and sock hops cost Razcal about $100 each. That paid for T-shirts, sweatshirts, hats, and other prizes for the winners, as well as drink cups, promotional posters, and raffle tickets for more Razcal, given away as prizes. About 100,000 cans of soda were given away. Total cost to Razcal (excluding soda): $25,000.

**The payback:** Razcal sales doubled from 250,000 cases in 1989 to 500,000 in 1990. Razcal's presence was felt in schools from January to March, thanks to the poster contest. In areas where schools joined the campaign, sales doubled and even tripled for the entire year. In addition, supermarkets waived slotting fees and even provided point-of-purchase displays to ally themselves with the MADD-Razcal antidrinking effort. *—T. L.*

# BANKING & CAPITAL

ILLUSTRATION: MARIS BISHOFS

LOANS

## *A Little Help from the Government*

IN RECENT YEARS MORE AND MORE STATE AND local governments have created programs to help finance growing businesses. You would think they'd want you to know about them, but don't count on it: often the information is hard to come by and even bankers are in the dark.

So how do you sniff out the sources that one expert calls "secret scholarships for business"? The best advice we have is to set aside some time and plan to do lots of legwork. Below is an annotated list of some of the types of financing that may be available in your area, and some tips on how to find them:

**Loans.** Depending on where you are and what you need money for, you may be eligible for a loan from a revolving loan fund. More than 30 states have such funds to support the working-capital and fixed-asset requirements of businesses that are expanding in targeted communities or hiring low-skill workers. Other revolving funds are sometimes sponsored by nonprofit groups. Loans from revolving loan funds are usually granted at favorable rates and terms, and those loans may make it easier for a bank to come in with more money as a senior lender.

Even if there are no locally sponsored sources, there may still be loan funds that are capitalized by grants from the Economic Development Administration (EDA), an arm of the U.S. Department of Commerce, or from the Department of Housing and Urban Development (HUD). Typically, such funds are managed by local government, nonprofit development *(Continued on next page)*

RESOURCE

## *Picking the Best Loan*

ANYONE WHO'S EVER tried to sort out competing borrowing options knows how confusing it can be. Fortunately, there are software programs to help. One of the most versatile is Cashflow Planner.

Cashflow Planner allows you to move freely through planning and budgeting exercises based on your company's historical and forecasted data. Once you've plugged in numbers, you have total flexibility to play "what-if" games. You can make changes on your income statement, for example, and watch the ripple effect on your balance sheet. The program can help you anticipate funding gaps and can assist you in identifying the best ways to fill them.

Cashflow Planner's loan-comparison module lets you compare four loan options at once. You enter information about the amount each bank will lend, the interest rate, and the term. Then you score each loan on a scale of one to five on nine other criteria—fees, collateral demands, approval time, and so forth. In seconds the program tells you whether a loan meets your standards, rating loans from "excellent" to "unsatisfactory."

And what about your chances of *getting* the loan? Based on information you've entered, including business data and lending criteria from banks, the program calculates 23 standard ratios (using built-in formulas) and spits out report cards in English.

Because Cashflow Planner is a stand-alone program, what you see is what you get; in its current form, you can't introduce new ratios, for instance, or even calculate the effect of a balloon payment.

Cashflow Planner costs $285 and is available from PMG Cashflow, in Bellevue, Wash., at (800) 242-3380. A tutorial is available for $5. ***—B. G. P.***

### IN THIS SECTION

**A LITTLE HELP FROM THE GOVERNMENT**
*Locating hard-to-find government financing*

**RESOURCE: PICKING THE BEST LOAN**

**SPOT FACTORING**
*Accounts receivable borrowing when you need it*

**LIQUID ASSET TEST**
*How would* you *convert your assets into cash?*

**Edited by Bruce G. Posner**

RECEIVABLES

## *Spot Factoring*

CONGRATULATIONS. You've just delivered a major order to a customer. Trouble is, until that customer pays you, you're broke. Your banker won't lend you another dime, and suppliers have cut you off until you pay *them*. So what do you do now?

You could cool your heels until the money comes. But before you resort to that, look into spot factoring.

Spot factoring, like ordinary factoring, is a surefire way to turn your receivables into cash. Normally, you might have to wait 30 days or more for invoices to be paid; factors, who look at your customers' credit (not yours), can pay you the bulk of what's owed within a couple of days. You'll receive the balance, less administrative costs and fees, after the customer pays. Most factors want companies to sign contracts promising them a certain amount of business over time, but spot factors operate differently. Assuming they like the credit of your customer, and the transaction itself checks out, they'll buy a receivable whenever a business needs to sell one.

Because of the financial risk inherent in what they do, spot factors invest a lot of time up front, verifying that customers indeed have the ability to pay. Once the ability to pay has been established, spot factors do intensive inquiries into the transaction itself, confirming that the goods were received or the service performed; that the customer got what was ordered and that the quality was acceptable; and that the customer intends to pay the invoice. Typically, spot factors advance 60% to 80% of the value of an invoice within a couple of days of a commitment. How much you'll see of the rest depends on how swiftly your customers pay up. Some players, such as Access Capital, in New York City, price their services in 10-day increments; others, such as Concord Growth Corp., in Palo Alto, Calif., use 15-day periods. Assuming an invoice is paid in 30 days, ex-

*(Continued on page 76)*

**ONETIME LENDERS**

| Source | Minimum deal | Typical advance | Typical fees |
|---|---|---|---|
| Access Capital (800) 421-0034 | None | 70%–80% | 3%–5% for 30 days |
| Allstate Financial (703) 931-2274 | $10,000 | 70%–80% | 4%–8% for 30 days |
| Concord Growth (800) 229-9000 | $10,000 | 50%–80% | 2% for 15 days |
| Riviera Finance (800) 421-1327 | None | 75%–95% | 5.5% for 30 days |

(*LOANS, from page 73*)

corporations, or rural-planning districts. To get the ball rolling, call your city or state economic development office.

**Loan guarantees.** The advantage of a loan guarantee is that it can prod a bank to lend more money and to provide it for a longer period, often at a lower interest rate. Beyond the well-known guarantee program of the Small Business Administration, it's worthwhile to investigate other sources. HUD, for example, has a loan-guarantee program that operates through cities and towns (using Community Development Block Grant funds). Several states, among them California, Maine, and Mississippi, have guarantee programs of their own. For information about loan guarantees, call your SBA regional office and ask for names of certified and preferred lenders. To check out other possibilities, call the local HUD office, your state economic development agency, or (if your state has one) the state financing authority.

**Interest subsidies.** If you had a choice between a loan at 11% and an otherwise identical one at 9.5%, which would you choose? Depending on where you are, below-market-rate money may not be a pipe dream. Several states, including Ohio, Iowa, and Oklahoma, have interest-rate subsidy or "linked-deposit" programs, which permit qualifying small businesses to get favorable loans from local banks.

In Oklahoma, for instance, participating banks can qualify for low-cost funds from the state, provided they agree to pass along the savings to customers; to qualify, companies must have revenues of less than $4 million and employ fewer than 200 people. To find out about such programs in your area, contact the state economic development agency. You might also get in touch with local business groups such as the chamber of commerce, or nonprofit development corporations in your community.

*—B. G. P.*

*Plastic Capital*

*A few years back filmmaker Robert Townsend made the rounds on the talk-show circuit, explaining how he bankrolled his first film,* Hollywood Shuffle, *by maxing out his credit cards. A number of CEOs we know claim to have at least partially financed their ventures the same way. For those of you contemplating a dive into the deep end of the capital pool, here's a sampling of the best terms you can expect:*

| Best Gold-Card Deals | Card offered/ annual fee | Interest rate on cash advances | Credit line | Late/ over-limit fee |
|---|---|---|---|---|
| BayBank, Dedham, Mass. (800) 221-3383 | V, MC / $45 | 11.5% * | $5,000 and up | $0 / $5 |
| First Tennessee Bank, Memphis (800) 234-2840 | V / $35 | 13% * | $5,000 and up | Greater of $3 or 5% of min. payment / $10 |
| Bank of Hawaii, Honolulu (800) 643-8511 | V / $45 | 13.21% * | $5,000–$100,000 | 5% of min. payment / $5 max. |
| Amalgamated Bank, Chicago (800) 365-6464 | MC / $0 | 13.8% * | $5,000 and up | $0 / $0 |
| First Virginia Bank, Falls Church, Va. (800) 634-6863 | V / $36 | 13.9% * | $5,000–$10,000 | 5% of min. payment due / $12 if over 10% of credit limit |
| USAA Credit Card Bank, Salt Lake City (800) 922-9092 | MC / $20 | 13.78% * | $5,000–$25,000 | $0 / $0 |
| Ohio Savings Bank, Cleveland (800) 836-1465 | V, MC / $45 | 14.75% | $5,000 | $15 / $15 |

*Variable. Source: "Gold Credit Card List," Bankcard Holders of America, Herndon, Va., September 1990, and banks listed.
Note: Minimum household income requirements range from $30,000 to $40,000 for all cards.

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

# Send for Free Information from Inc.'s Advertisers

***Inc.* advertisers want to help grow your business.** And they want to give you detailed information about their products and services advertised in this issue.

***It's quick. And easy.*** Just turn to the Reader Service page. Complete and mail the postage-paid reply card. Our computerized response system will speed the material to you.

Inc.

THE MAGAZINE FOR GROWING COMPANIES


**BANKING & CAPITAL**

*(RECEIVABLES, from page 74)*
pect to pay anywhere from 4% to 7% of the value of the invoice in fees.

Clearly, this can be a pricey way to finance a business. Is it worth it? That depends on your other options and how thick your margins are. If you're not going to make money on the cash you get, chances are, you're better off waiting for those checks. ***—B. G. P.***

**PLANNING**

## *Liquid Asset Test*

ON THE THEORY THAT there's no such thing as being too prepared for a meeting with a jaded banker, we bring you a timely and thought-provoking exercise from Bob Bowman, president of Plains-Bank of Illinois, a $160-million-asset bank in Des Plaines, Ill.

Like any prudent banker, Bowman, who spent six years as a bank examiner, wants to be assured that the loans he makes are loans, not equity investments. So in the course of getting to know prospective borrowers, he poses a rather unsettling question: if they had to convert their business assets into cash right away, how would they do it?

Bowman encourages would-be borrowers to take him through their business, asset by asset. In the case of inventory, he wants to hear what each type is worth—and who, specifically, might be willing to pay that price. He asks the same about equipment and receivables, and he inquires about customer relationships.

The point of this quiz, Bowman notes, isn't to make people squirm. It's to gain insight into the workings of individual businesses, how the executives think about their businesses, and how the loan might be structured. "Obviously, we want our borrowers to believe in what they're doing, and we want them to succeed," he says. "But if they're going to borrow, they have to show us what happens if things *don't* work out. We want to know how they'd pay us back." ***—B. G. P.***

# MANAGING PEOPLE

*Watson found North Dakota workers had the drive he needed.*

WORK FORCE

## *Workers Far Afield*

CHANCES ARE, YOUR COMPANY IS WHERE IT IS because that's where you first got the idea for your business. Or it's where your first customers were. Those were actually good reasons at the time, but they may not be now. You may now be too distant from your enlarged customer base or too far from suppliers. Worse yet, you may be constrained by a local shortage of skilled or affordable workers.

Solution: relocate part of your business. Most business owners assume that strategy makes sense only for big companies with large labor forces. But small companies can benefit enormously, too, particularly as technology has made it easier to tie far-flung offices together. Philadelphia Macaroni, a family-owned pasta maker with two plants in Pennsylvania and more than $10 million in sales, is locating a plant in North Dakota to be near its suppliers and high-quality labor. Total employees at the new plant: 17.

Many regions of the country will bend over backward to attract small businesses. In addition to establishing an economic development arm, many industry-starved areas are willing to lure a business with tax breaks, subsidies, or loans. As a result of such inducements, lower labor costs,

*(Continued on next page)*

INCENTIVES

## *The Element of Surprise*

DAVE WIEGAND, PRESIDENT of Advanced Network Design Inc. (AND), a La Mirada, Calif., telecommunications company, used to get employees to do what he wanted by using an old standby—incentives. AND had weekly, monthly, and quarterly awards workers could earn. The carrots worked but with a hitch. "We'd start a program to motivate a certain behavior," he recalls. "When we stopped a program, we'd lose that behavior."

So in 1988 Wiegand started a new award system: no system. Now his employees don't know who will get bonuses or what they will be. "Out of the blue we'll call a meeting and reward somebody for outstanding performance," says Wiegand, who gave 15 awards worth some $9,000 at two meetings last year.

The size of the reward depends on the profitability of the activity being rewarded. Last year Wiegand gave a five-day family vacation to Disney World to one executive because his department's sales had exceeded expectations by 70%; a $75 clock radio to an unusually dependable receptionist; and a $375 suit to a manager (with pearl jewelry for his wife) who had increased his department's revenues 40% in four months.

Intermittent reinforcement, says Wiegand, is far more effective than defined bonus plans. Under the new system AND's sales force has shrunk from 12 to 4 while productivity has increased. Where the top salespeople had generated $110,000 in annual new revenues, the two top saleswomen brought in $638,000 and $520,000 in new revenues last year. Plus, the company isn't locked into the fixed cost of a traditional incentive program. *—E. E. S.*

RESOURCES

## *Help in Relocating*

**If you're considering relocating in a different region of the country, contact the American Economic Development Council, in Rosemont, Ill. (708-692-9944), for information. If you want to screen a number of regions quickly to find out which have a special appetite for your industry, DataChase, in Chicago (800-852-0258 or 312-853-0071), will do the research for you for an hourly fee.** *—E. E. S.*

## IN THIS SECTION

**WORKERS FAR AFIELD**
*Consider relocating part of your business*

**RESOURCES: HELP IN RELOCATING**

**THE ELEMENT OF SURPRISE**
*To make incentives work, offer them out of the blue*

**EMPLOYEE-INITIATED REVIEWS**
*For more honest feedback, give appraisals on demand*

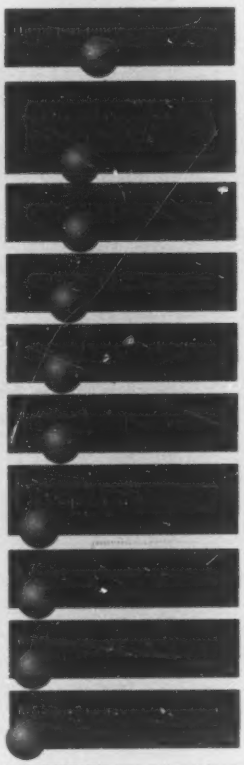
**DEPARTMENT OF LABOR CALLING**
*Are your salaries in order?*

**Edited by Ellyn E. Spragins**

PHOTOGRAPH: JACKIE LORENTZ

### *Solutions to Employee Shortages*

*While some companies are recruiting out of state, others are simply moving their facilities to relieve employee shortages. Here are the roads taken by some corporations:*



*Source: Responses to a nationwide poll conducted by Gruttu, Glassman & Hoffman, of Roseland, N.J. At least one-third of the respondents had fewer than 200 employees in 1990.*

*(WORKERS, from page 79)*
and higher productivity, businesses can save a bundle.

Consider New Flyer Industries Ltd., a Canadian maker of city buses. In 1987 it set up a finishing plant in Union City, Calif., near Oakland, to be close to a major customer. The plant was never as productive as the company had hoped, and as New Flyer's customers increased, it became a less convenient spot to ship from.

After a thorough search, New Flyer decided to close its California finishing operation and open a new plant in Grand Forks, N. Dak., a two-and-a-half-hour car ride from the company's headquarters, in Manitoba. The Grand Forks Development Corp. spent $221,000 to upgrade a 42,000-square-foot building for New Flyer. It put in air-conditioning, offices, rest rooms, lighting, lunchrooms, and oversized doors. The rent: $7,000 a month, compared with $23,000 a month in California.

The wage costs, of course, are cheaper, too. A handful of the 54 plant employees are paid $9.50 to $10 an hour, and most are paid just under $8 an hour. In California the average hourly wage was $12 to $13. That isn't the most significant difference, though, says plant manager Ross Watson. In California the workers tended to have high school educations, at most. "The people were 7:30 to 4:00 people. If the job didn't get done, they didn't worry about it. The drive just wasn't there," he says.

In contrast, the Grand Forks plant benefits from a number of university-educated workers. Says Watson: "Here it's the complete opposite. People just pick up tasks and do them on their own."

Guy Johnson, New Flyer's president, counts that attitude as one of the most important benefits gained by the relocation. He estimates that the new plant, which completed 350 buses in its first year, is 25% more productive than the California plant was. —*E. E. S.*

MEASURING PERFORMANCE

## *Employee-Initiated Reviews*

"MILLIONS OF PEOPLE who run companies know they should be conducting annual employee appraisals, but they're not doing it," asserts Roger Flax, president of Motivational Systems, a West Orange, N.J., management- and sales-training company. "There's a lot of assuming that in small companies people are motivated, so there's not a lot of formal motivating," he says.

One answer may be the employee-initiated appraisal, in which employees are told they can ask for a review from their manager. The on-demand appraisal isn't meant to replace a conventional semiannual review, but it promotes an attitude of self-management among workers and often makes critiques more honest. Edward Silverman, president of SOS Security Inc., a Parsippany, N.J., security-guard company with $25 million in sales, says the employee-initiated appraisal "encourages an open-door policy" at his company.

▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

**Flax suggests employees ask for as many reviews as they feel they need. Here are the seven questions he instructs employees to ask in their self-initiated appraisals:**

1. **Can you rate my performance from one to 10?**
2. **What do you feel are the strongest elements of my work?**
3. **What are the weakest elements?**
4. **Why didn't I get a 10 (highest rating)?**
5. **Where do you think I can go in my job or career in the next 18 months to four years?**
6. **What skills, training, or education do I need to get to that point?**
7. **What specifically can we agree on that I can do, beginning tomorrow?** —*E. E. S.*

LEGAL BRIEFS

## *Department of Labor Calling*

THE IRS ISN'T THE ONLY uninvited guest that could show up on your company's doorstep. The Department of Labor does investigations, too. Its Wage and Hour Division conducts some 60,000 investigations each year, looking for minimum wage, overtime, immigration, and child-labor violations.

One of the easiest places to err is in how you classify employees regarding their eligibility for overtime pay. "Many smaller employers have the misconception that if you pay employees a salary, you don't have to pay them overtime," says Janet E. Goldberg, a partner in the labor and employment law group at Sachnoff & Weaver, in Chicago.

The key is knowing which employees are exempt from overtime pay. The federal government and most state governments



CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

set a limit of 40 hours a week. Some states require overtime pay after 8 hours a day. While most of the exemption tests, or criteria, are clear enough, others are less so. Below are the three classifications of exempt employees that are fuzziest. In each case, employees in these categories must make more than $250 a week. Those making less—but more than $155 a week—must qualify for the more exacting "long form" exemption.

• **Professionals.** Their primary duty is the performance of work that requires advanced knowledge, including the consistent exercise of discretion. An accountant, for example, uses judgment in deciding whether to expense or capitalize a cost, whereas a bookkeeper may merely adhere to established practices.

• **Administrative employees.** Their primary duty is office or nonmanual work directly related to management policies or to general business operations, and it must include the regular exercise of judgment. Take the tricky case of executive secretaries. Some exercise discretion in ordering furniture, setting up conferences, choosing vendors, and other activities, and are thereby exempt. But other executive secretaries are trusted confidantes who type and are privy to highly confidential information. They would not be exempt because they do not use judgment in their jobs.

• **Executives.** Their primary duty is the management of the enterprise or a portion of the enterprise requiring the regular exercise of discretion and supervision of the work of two or more other employees.

If you have misclassified an employee, the penalties are not as severe as those levied by the IRS, but they can add up. The Department of Labor may ask you to start paying overtime to the employee and ante up with the back pay that you owe him or her. It pays to do as the department asks. Though less than 10% of violations go to litigation, the Department of Labor wins almost all that do. *—E.E.S.*

It's a good time of year to visit us here in Lynchburg. So we hope to see you soon.

YOU CAN GET all the fresh produce you want in Lynchburg. But not a drop of Jack Daniel's.

Even though we've made Tennessee Whiskey here since 1866, our county is dry and we have to sell it elsewhere. If you like homegrown tomatoes and snap beans, we suggest Clarence Baker's produce stand in the town square. But if you're hoping for a sample of smooth-sippin' Jack Daniel's, we'll point you to the county line 16 miles away. A trip that, we believe, always has its rewards.

SMOOTH SIPPIN'
TENNESSEE WHISKEY

Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352
*Placed in the National Register of Historic Places by the United States Government.*

# FINANCIAL STRATEGIES

*Each foreign deal requires different coverage, says Walsh.*

INTERNATIONAL BUSINESS

## *Covering Foreign Business Risks*

COMPANIES INVOLVED IN OVERSEAS VENTURES too often overlook insurance costs and considerations until after deals are signed or sales are made. That can be an expensive oversight, since policies that protect against foreign product-liability lawsuits, international-transport damage, or even kidnapping and ransom may prove pricey enough to wipe out profit margins.

What's more, U.S. businesses with foreign interests must coordinate insurance coverage with other countries' laws. "Some countries not only require you to buy certain kinds of policies from local insurers but also deny your company the right to do business there if you're caught with coverage from a nonadmitted carrier," warns Marnix Guillaume, president of Corroon & Black International, a New York City–based insurance-brokerage firm.

**For tips on foreign insurance, see page 84**

Unfortunately, there's no universal method for determining what your company will need for foreign insurance. "We probably ship to 20 or 30 countries over the course of a year," says Michael Walsh, executive vice-president of Recreonics Corp., an Indianapolis manufacturer of swimming pools and aquatic equipment. "But there's nothing resembling a catch-all insurance approach."

Walsh recommends doing due diligence on every *(Continued on next page)*

COMPENSATION

## *Performance Unit Plans*

PERFORMANCE UNIT plans (PUPs) make good sense for small businesses. Unlike year-end bonuses, PUPs tie financial rewards to long-term, individual achievements, yet they don't entail prolonged financial obligations the way many phantom-stock or profit-sharing plans do. Here's how they work:

1. A company's owner (or benefits specialist) selects the goal that makes sense for each executive. For example, a sales manager's target might be increased revenues, whereas a quality-control officer's might be reduced product rejects.

2. Owners attach to the goal specific numbers, which generally take the form of targeted percentages of change. Those percentages usually are stretched out over a three- to five-year horizon.

3. Then a PUP document is drawn up. In it, the executive is given a number of performance units, which have no value when they are issued. A clause states that if the executive achieves his or her PUP goals over a defined period, each unit will increase in value to the point where it can be redeemed for its new value, in effect as a cash reward.

"Growth-oriented companies can set executives' goals really high but then include a prorated reward structure so that managers who don't quite make it won't get burned out and leave," says Adam Gaslowitz, an Atlanta lawyer who has helped small companies design PUPs. Companies can also keep setting up new PUP plans for key executives, with revised goals that make sense for the company in its latest growth phase. So if executives are always in the midst of earning new performance units—which they know they'll lose if they resign before the PUP matures—there's a real inducement to stay with the business. ***—J. A. F.***

### IN THIS SECTION

**COVERING FOREIGN BUSINESS RISKS**
*Navigating the international insurance market*

**PERFORMANCE UNIT PLANS**
*Financial rewards based on individual goals*

**RESOURCES: WEATHERING THE RECESSION**

**GUARANTEED INVESTMENT CONTRACTS**
*A safe, interest-sensitive option*

**USING BOARD MINUTES AS AUDIT PROTECTION**
*How to document tax-related decisions*

**Edited by Jill Andresky Fraser**

PHOTOGRAPH: GREG WHITAKER

*(INTERNATIONAL BUSINESS, from page 83)*
foreign deal. "I'd talk to my corporate attorney to find out what kinds of risks I'm incurring on every type of contractual obligation," he says. Then I'd talk to my domestic insurance broker to see what I'm already protected against. Then I'd talk to my advisers in whatever country I'm doing business in, to analyze local laws and customs."

Since Recreonics' overseas deals run the gamut from importing and exporting to joint manufacturing ventures, its foreign insurance coverage resembles a patchwork quilt, with each deal's coverage custom-tailored to fit its particular needs. "If we're shipping overseas, I'm concerned with the perils of transportation, but those are normally covered as part of our freight transportation package," explains Walsh. "But if I'm importing goods to the United States that are made by a foreign manufacturer according to his specifications, then I have the additional concern of product-liability coverage. I'll insure the shipping risks but insist that he have his own liability policy to cover the U.S. market. And I insist on seeing a copy of the policy."

As prepared as Walsh is, there are plenty of unexpected risks for him to beware of. "We often see entrepreneurs who get a great idea for a business venture, fly overseas, and come back with a signed contract and a big new market," says Guillaume. "But if the deal was arranged by someone who lied on his customs visa—by saying that he was traveling overseas for pleasure, not business—the government of the other country can deny the validity of the contract, and an insurance company can later refuse to honor any claims." *—J. A. F.*

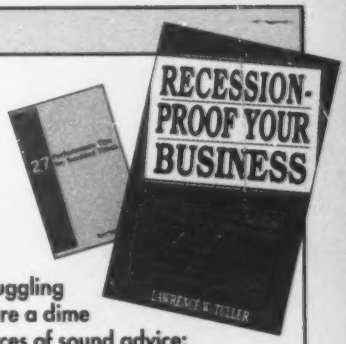
▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

Below, some inside tips from Guillaume for U.S. companies navigating the international insurance market:

| Type of international venture | Insurance issue |
|---|---|
| Importer | Can eliminate the need for transport insurance by arranging to assume ownership of the imported goods at the U.S. port of transit. |
| Exporter | Can skip transport insurance as above but must buy "foreign-products coverage" to protect against overseas product-liability lawsuits. |
| U.S. parent with overseas plant or distribution network | Depending upon each country's laws and political climate, may need property coverage, workers' compensation (different policies for U.S. and foreign workers), auto liability, foreign liability, or other coverage. In Latin America or the Middle East, may need kidnap and ransom coverage. |
| Joint venture with overseas partner | Must buy foreign insurance only if they're majority partners, but minority owners should request copies of all insurance documents to protect against lawsuit risks if the venture proves underinsured. |

RESOURCES

## *Weathering the Recession*




**Quack cures for companies struggling through economic downturns are a dime a dozen, but here are two sources of sound advice:**
**• *Recession-Proof Your Business*, by Lawrence W. Tuller (Bob Adams Inc., 617-767-8100, 251 pages, $9.95), aims to teach companies "how to boost cash flow and make it through tough times with ease." Best of all, the book manages to provide simple-to-follow financial advice that is anything but simplistic.**
**• "Twenty-seven Performance Tips for Troubled Times" (BusinessVISION, 714-855-6060, free) is 8 pages of practical tips, such as "develop a 'control panel' of real-time performance indicators" that can be scanned daily.** *—J. A. F.*

INVESTMENTS

## *Guaranteed Investment Contracts*

COMPANIES THAT HAVE 401(k)s or other types of long-term qualified savings accounts may want to consider guaranteed investment contracts (GICs), an investment strategy that offers safety as well as the opportunity to profit from interest-rate increases.

GICs work something like certificates of deposit, except they're sold by insurance companies. "Companies pay money in return for a contract that promises them the return of their principal plus an investment yield, at whatever point the GIC matures," explains Bill Wolff, a vice-president at The New England, a Boston-based insurer. GICs bought for 401(k)s usually permit deposits to be timed throughout the purchase year to coincide with employees' deferred-income plans.

Companies can choose between two types of GICs: participating or nonparticipating. The first variety offers investors a variable rate of return—thus, they *participate* in the risks and rewards resulting from interest-rate fluctuations. Nonparticipating GICs earn fixed rates of return. GICs' are typically higher than CDs' by a percentage point or so at the time of purchase. "In a market where interest rates are high, it may make sense to buy a nonparticipating GIC and lock in that high return," says Wolff. "But today, when it's a good bet that interest rates will eventually rise, it may make better sense to go with a participating GIC instead."

At Bommer Industries Inc., a 200-employee manufacturer of builders' hardware, management is so sold on participating GICs that it has decided to invest all funds accumulated in the company's nine-year-old thrift plan in them. "We're very conscious of our fiduciary responsibility in managing our employees' long-term savings, so we like the safety feature," says Charles

*(Continued on page 86)*

**Q:** I want to reach growing companies, but my business is limited geographically. How can Inc. help?

I'd like to test my product in a few target markets before taking it national. What do I do?

My product sells best in the Northeast and Southwest. How do I avoid waste?

**A:** **Buy Inc. Regional Advertising!**

13 Advertising regions to help you harness the power of the growing company market.

**Call Lee Jackson (East) or Beth Johnson (West): (617) 248-8000, to order or receive a full media kit.**

# Inc.

## SUBSCRIBER SERVICE INFORMATION

We at Inc. magazine are dedicated to serving our customers, and we pledge to do our best to accommodate you throughout the life of your subscription. The information below will help you if a problem should ever arise.

**FOR SUBSCRIPTION PROBLEMS**

For quick results to a question or problem regarding your Inc. subscription, please call our toll-free number **1-800-234-0999** (includes U.S. and Canada). Have a label from one of your magazines handy to answer any questions we may ask.

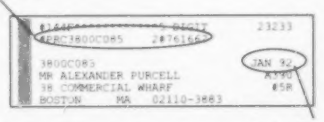
If you would rather write, please address all inquiries to:

Inc. magazine
Subscription Service Department
P.O. Box 54129
Boulder, CO 80322

Please include a current mailing label or invoice with all written inquiries.

**HOW TO READ YOUR MAILING LABEL**

The date circled on the right-hand side of the label indicates your subscription expiration date. The number circled to the left of that is your "match- code" which enables us to locate your account quickly and accurately.




**TO CHANGE YOUR ADDRESS**

For uninterrupted delivery of your magazine, please notify us at least 8 weeks before you move. Include your mailing label and your new address, including the zip code.

**DUPLICATE NOTICES**

Occasionally you may receive a renewal or payment reminder after you have already mailed us your reply to the previous notice. Should this happen to you, it probably means our correspondence has simply crossed in the mail. If you receive a second notice after you have sent in your payment or renewal instructions, please contact us. There may be a problem.

**MISSING OR DAMAGED MAIL**

We will act promptly to correct any problems in service. Contact the above 800# or write to us and we will replace the missing issue (inventory permitting), or gladly add an issue to your subscription.

**FINANCIAL STRATEGIES**

*(INVESTMENTS, from page 84)*
Martin, Bommer's vice-president for finance.

One caveat: unlike CDs, GICs are backed by the financial health of your insurer, not by the federal government. Since GIC funds are typically placed in relatively volatile investments like mortgages and private placements, it makes sense to verify the insurer's financial health with A. M. Best, Standard & Poor's, or Moody's before finalizing any contract. *—J. A. F.*

**TAX STRATEGIES**

## *Using Board Minutes as Audit Protection*

WHY RISK EXPOSING YOUR company to penalties in a tax audit? At Physical Acoustics Corp., in Lawrenceville, N.J., chief financial officer John Heenan uses the company's board minutes to provide documentation on all significant tax-related decisions.

- **Document important discussions, as well as votes, as they happen.** "You can't go back and try to impute motivation to prior board decisions with any degree of success," warns Heenan. "But if we can show why we made a decision, the tax authorities can't accuse us of just trying to dodge taxes, after the fact, once we've seen that we've had a particularly good year."
- **Refer to long-term corporate policies when board minutes relate to important tax decisions.** "It helps to show that we were conscious of corporate precedents," Heenan explains, "even if we were also considering our tax benefits."
- **Be especially scrupulous on matters with high audit potential.** "With some decisions, like bonuses, there's always the risk of the IRS coming in and saying, 'How do we know you didn't just make the decision once the year ended and you saw you had some leftover cash?' It's cleaner with both the IRS and your key executives if you can point to minutes as proof of the year's guidelines." *—J. A. F.*

# IN THE OFFICE

*Negotiate early for better terms, advises Marisa Manley.*

SAVING COSTS

## *Learn to Walk from Leases*

WHEN IT COMES TIME to negotiate floor space, businesses can carve out more favorable lease terms than most realize, claims Marisa Manley, a Manhattan real estate consultant and broker. A powerful tool for leveraging a landlord is the phrase *I'm walking,* she says.

To gain meaningful ends, the prospective lessee must come to the bargaining table with enough gumption to get up and go—literally. Most, however, are unprepared to take a session-ending stroll, Manley observes. Here are four exercises designed to strengthen a business's lease-leveraging muscle:

**1. The early jump.** Time is essential for leverage. Getting good terms out of even a modest-size transaction can take a year. Yet, observes Manley, it's not until a few months before his or her company's lease is to expire that the typical president starts to act. By then the pressure's on: if negotiations can't be completed before the lease runs out, the tenant faces having to pay for extra rent periods, as well as meeting other provisions of the expired lease, which might entail stiff penalties.

**2. The fallback position.** Tenants tend to be too set on where they want to settle. Only when you have a true alternative, Manley counsels, do you have the confidence to walk. Therefore, shop for a lease at a second site. Even if you don't take the space, the experience provides valuable grounding in the *real* market—the give-and-take of how deals are closing in the trenches, not merely how they're offered on paper.

**3. The landlord pull.** Determine what's motivating the lessor. Knowing the landlord's financial situation—when the mortgage comes due, how big it is, if there are other fixed obligations, if there is a set of limited partners to satisfy every month—can be a marked advantage.

**4. The thrust and parry.** Search out something the landlord values that you don't, then raise it to the level of a walking point. Example: sublease rights. While many tenants consider them good insurance and possible profit centers, others would just as soon not be bothered with managing space they're not occupying themselves. The landlord, however, does not have to be told which side you favor. Negotiate as hard as you can for something you *don't* want, and when the deal stalls, offer to switch the demand if the landlord will enhance something else. To name a few possibilities: lower rent, material provisions such as curtains and carpets, low-cost overtime air-conditioning, better expansion guarantees, even up-front cash.

*—R. A. M.*

RESOURCE

## *Speak Up*

**Don't underestimate the value of a good speaking voice. Customers often form their first—and maybe last—impression of a company within seconds after listening to the receptionist on the telephone. Yet few companies pay more than lip service to training the vocal cords of their operators.**

**If you want sound advice, consider a book that customer service professionals recommend: *Change Your Voice, Change Your Life* (Harper & Row, $8.95). Author Morton Cooper offers helpful tips and exercises to get rid of, for example, a whiny or nasal tone, and to create a memorable "voice image." To order the book, call (800) 638-3030.**

***—Susan Greco***

## IN THIS SECTION

**LEARN TO WALK FROM LEASES**
*Strategies for cutting the rent*

**RESOURCE: SPEAK UP**

**BARE IS BETTER**
*Forget pretentious, give me functional*

**SAFE VDTS**
*Are VDTs hazardous? A shopping list of safe products*

**INC. SPILLS THE BEANS ON COFFEE SERVICES**
*A survey of what's brewing*

**Edited by Robert A. Mamis**

PHOTOGRAPH: LARRY FORD

OFFICE DESIGN

## *Bare Is Better*

TO THE UNSUSPECTING VISITOR, THE UNPRETENtious interior of Cabletron Systems bespeaks niggardliness at best, the verge of collapse at worst. As cofounders S. Robert Levine and Craig R. Benson see it, however, keeping the inside of the Rochester, N.H., headquarters sparse not only saves money but constitutes an effective sales strategy—once it's justified to inevitably stunned first-time callers.

Salespeople explain that disdaining office niceties—chief operating officer and treasurer Benson greets customers as he sits on a tattered chair behind a dented, fake-woodgrain-topped desk—enables Cabletron to price its line of computer-networking products as much as 20% below the competition. Whoever doubts that so deep a disparity can be achieved in large part simply by skimping on decor doesn't appreciate Cabletron management's relentless application of the theory. In the company's new 126,000-square-foot quarters, Benson forged office space out of portable partitions that had been junked by a nearby concern, bridging gaps by taping strips of shipping cartons over them. "OK, so the cardboard doesn't match the walls," says Benson with a shrug. "The *walls* don't match the walls, either."

Still, Benson calculates that for every dollar Cabletron "spends" on its offices, a comparable company likely spends six, much of it on nonproductive indulgences such as marble floors. To what effect, however? "Some customers would prefer a lavish environment because it looks as though you're successful," Benson concedes. "But once they understand our philosophy, they like the simple setting a lot better."

On the other hand, doesn't a decidedly *less* lavish environment make even a $181-million company with a five-year growth rate of 1,780% look more as if it were sliding down the chute? No, answers Benson. Aside from its makeshift offices, he says, "visitors see signs of a prosperous, energetic company. Don't forget: they've just come in from a parking lot filled to overflowing." —*R. A. M.*

▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

**TIPS FROM A TIGHTWAD**

- **Shop at sales of commercial leasers. Invariably, they retire desks, chairs, and the like before their useful lives have expired.**
- **Before a move to a new facility, get acquainted with neighboring businesses. One might be about to redecorate and need to get rid of still-usable furnishings. You might even get them delivered for free.**
- **Convince your staff that how offices look isn't what counts. "I've never seen an engineer or a salesperson become more productive in a more expensive office," Craig Benson insists.**
- **Occupy lower-priced real estate to start with. Square-footage in the sticks has less expected of its interior than space on Park Avenue.**
- **Fix up at least one area amid the squalor—a conference room, say—in fancy style to show you can do it.**
- **Don't take a lavish office for yourself.**

HEALTH

## *Safe VDTs*

EXPERTS HAVE BEEN weighing the possibility for some 15 years now, but there's still no consensus that electromagnetic emissions generated by a computer's video display terminal (VDT) are hazardous to human health. Not only are scientists at odds, so are bureaucrats: the government of Sweden has endorsed radiation standards that monitors ought to meet, but no federal agency in the United States has promulgated even a soupçon of a suggestion.

A commercially silver lining in this cloud of discord is that anxiety fosters industry. Described below are some products that have come to market in response to VDT-emissions fears:

*The Professional Very Low Frequency Gauss Meter* and *The Professional Extremely Low Frequency Gauss Meter.* Hand-held devices that, in tandem, measure the strength of VLF and equally insidious ELF radiation, and hence establish a relatively prudent distance from the source of those fields. Safe Computing, $145 each; (800) 222-3003.

*PageView 15-inch monitor.* Ultralow-emission monochrome VDT said to conform, via a special shield, to Sweden's most recent recommendations. Sigma Designs, $1,299; (415) 770-0100.

*Eyesaver products.* A line of nylon, glass, and stainless-steel sheaths that, when fitted over a monitor's screen and/or housing, decrease electromagnetic-field strength. Soft/View Computer Products, $69 for the Eyesaver Plus; (212) 529-2074.

*The 8515 monitor.* First IBM VDT to comply with Swedish standards. In 1989 IBM announced that all its VDTs would meet those standards by January 1992. IBM, $950; (800) IBM-9292.

*The Safe Monitor.* A 10-inch liquid-crystal-display (LCD) monitor that uses patented circuitry and exotic metals; Safe Comput-



PHOTO ILLUSTRATION: MICHAEL LLEWELLYN

ing claims it is the only monitor in the world that generates no radiation whatsoever. Safe Computing; black-and-white monitor costs $795 to $1,795; color, $2,400.

Currents of Death, *by Paul Brodeur.* The seminal opus on the subject, describing the health menace of computer terminals, among too many other man-made perils to contemplate. Simon & Schuster, $11.95; (800) 223-2348.

*Radiation-free alarm clock.* A battery-operated timepiece that illuminates the irony that the average plug-in LCD alarm clock emits more radiation than the average VDT—inches from the unwary sleeper's head, at that. About $30.

*—R. A. M.*

OFFICE PERKS

## Inc. *Spills the Beans on Coffee Services*

WHEN WE QUERIED A NUMber of modest-size businesses to determine how they answered employees' bottomless demands for office-sponsored coffee, solutions ranged from installing a machine that custom-brews a cup in a few seconds to dispensing a secretary to the doughnut shop for a few minutes. Of even wider range were the number and types of services, from international corporations to ad hoc locals. Of widest variation was the per-cup cost of the elixir itself.

Eight ounces of office brew can be bought for as little as 3¢ to as much as 15¢, if not more. That's a gap worth exploiting: the mere hint that someone's shopping around, we found, can trigger a bidding war.

| COMPANY | VENDOR | POTENTIAL # OF DRINKERS | COST/8 OZ. |
|---|---|---|---|
| **ABC Supply,** Beloit, Wis.; regional building-material distributor | Sunrise Coffee Service, Beloit, Wis.; local supplier | 35 | 6¢ |
| **THE SCOOP:** ABC used to handle its own coffee, but now, with 35 employees working at corporate headquarters, it has turned to professionals to manage its single coffee maker. ABC still keeps an eye on the budget: it purchases no allied products. Sunrise projects average corporate monthly coffee consumption for a company ABC's size to be about 700 8-ounce cups. ABC is right on target. | | | |
| **Cash America,** Fort Worth; pawn-shop chain | Neighbors Coffee Service, Dallas; part of a regional chain | 100 | 5.5¢ |
| **THE SCOOP:** At $116 million in sales, Cash America employs a full-time kitchen manager, partly to wrestle with the intricacies of coffee service, partly to bake cookies to go along with it. For a case of 42 1.5-ounce bags with built-in filters, Neighbors Coffee charges Cash America about $20 for each of its 18 monthly cases of regular coffee and about $24 per case for the decaf. Nondairy creamers go for 2¢ each; a packet of sugar, 1¢; a paper cup with handle, 4¢. | | | |
| **PSS,** Jacksonville, Fla.; medical-supply distributor | ARA Cory, Jacksonville, Fla.; branch of national company | 20 | 5¢ |
| **THE SCOOP:** A lone coffee maker in the company lunchroom dispenses twice as much regular as decaf—pretty much the universal office drinking ratio. A case of regular, a Colombian roast, costs $26 and yields 504 8-ounce cups; a case of decaf costs $24. Vendor-supplied sugar costs about 2¢ per teaspoon. | | | |
| **Reference Software International,** San Francisco; software publisher | Uncommon Grounds Gourmet Coffee Inc., Berkeley, Calif.; local supplier | 60 | 12¢ |
| **THE SCOOP:** The company goes through up to four pounds of coffee a week, a bit below vendor's projection that 60 employees ought to use six to seven pounds a week. The laid-back rate can be accounted for, says the company, by Californians' taste for herbal tea. Reference pampers coffee devotees by paying $5.85 to $6.35 a pound for its vendor's best. | | | |
| **Thinking Machines,** Cambridge, Mass.; computer-hardware developer | Filterfresh, Wilmington, Mass.; franchisee | 430 | 15¢ |
| **THE SCOOP:** Filterfresh uses a proprietary coffee maker that, on individual command, forces aerated water through a single measure of grounds, preparing a customized cup in 10 to 15 seconds. The plumbed-in apparatus dispenses about 200 cups of regular plus 100 cups of decaf before reloading. Employees don't waste time waiting for the next pot. | | | |
| **Tracks to Adventure Caravan Co.,** El Paso; recreational vehicle tours | a nearby military commissary or the supermarket | 3 | 3¢ |
| **THE SCOOP:** One household-type coffee maker is loaded with communally funded off-the-shelf coffee at $4.99 per 39-ounce tin. The brewer produces two pots a day. Last one to leave turns it off, or there's hell to pay in the morning. | | | |

*—Researched by Susan Greco and Chris Caggiano*

PORTABLE DISPLAYS
• Solid custom look
• Stunning graphics
• Save on shipping
• Hand carryable
• Easy set-up
1-800-328-2725

Please Rush My FREE Color Display Brochure Today!
Name
Title
Company
Address
City State Zip
Phone
Mail to: 12345 Portland Avenue South, Burnsville, MN 55337
SKYLINE™
Displaying Performance.
INC'1

# THE INC. NETWORK

## NEW QUERIES

**This month we heard from a newspaper start-up, a pest-control company, and a relocated business, asking about everything from writing a business plan to selling the company. And in Resources, experts advise a reader on winning respect for his home-based auto-parts business.**

### FIT TO PRINT?

I'm trying to write a business plan for an industry newspaper, *Flea Market Weekly*. The one book I found on setting up a newspaper was published in 1981 by a bunch of Harvard students. I need something a little more timely and applicable. Does anyone know where I can find sample business plans for newspaper- or magazine-publishing companies? And since I'm writing this to get financing, should I seek capital within the industry, from venture capitalists, or from Mom and Dad?

Jatika Manigault
President
Onyx Publication Co.
Atlanta

### PESTY PROBLEM

My company provides termite and pest control, landscaping, and lawn maintenance. I'd like to start bidding on local, state, and federal contracts, but I don't know where to begin. Where do I find out about jobs coming up for bid? Do the different levels of government and the various offices collect bids separately? There have to be some pointers out there.

Jim Mouyassar
President
Two Nice Guys
Environmental Services Inc.
St. Louis

### GETTING TO KNOW YOU

I recently relocated my business from Philadelphia to Minneapolis. The company succeeded in Philadelphia because we knew our potential clients in that market and could judge their financial health, and we avoided bad debt. As I expand my client base in a new city, I want to know if I can run credit checks on prospects without paying an up-front subscription fee to a service. I can't justify that expense if I'll need to check on only one or two companies each month.

Mary M. Koppel
Koppel & Co.
Minneapolis

### LOAN FINDER

I am selling my business, and the prospective buyer is looking into low-interest loans for minorities. Can Network readers suggest any sources?

Name withheld by request
Monrovia, Calif.

### TO MARKET, TO MARKET

**After selling his handmade leather goods out of his shop for a year, Paul Mardikian wants to work out a retailing deal with a chain of specialty stores. How should he structure the deal (Leather Case, April)?**

We recently worked with two clients with situations similar to Mardikian's. Neither went the route he's contemplating. One started off selling at fairs to build name recognition and to test the market. He reinvested his earnings until he could afford to open his own shop. The other tried to crack a market dominated by two large manufacturers with exclusive distribution rights to almost all the major outlets. So she sought out alternative retail outlets, including independent specialty stores, and has assembled a distribution network of 15 retailers and a mail-order department.

Andrew M. Spell
George Mason University
Small Business
Development Center
Fairfax, Va.

### RABBI TRUST

**Since he founded it, in 1983, Lon B. Williams's contracting and cabinetry business has grown steadily, and he thinks it could grow more, but banks have been uncooperative. He wondered why (The Cupboard Is Bare, March).**

I also own a small woodworking-manufacturing company, and a number of years ago I faced the same problem. Contracting has a high failure rate, so I found it hard to win a bank's trust. After taking my portfolio and financial information to numerous banks and walking away with nothing, I ended up going to the bank with my rabbi, who happens to know the bank president. I was able to get the line of credit I needed to build the business, and since then we've grown substantially. Williams should also look for city, state, or federal financing. But finally, it's who you know.

Gary Pietruszka
President
Woodworking by Degree
Los Angeles

### SALISBURY'S STAKE

**David E. Salisbury wants information on taking his own company public (Do It Yourself, April). Readers replied with resource suggestions and some firsthand experience.**

Ellyn E. Spragins chronicled one company's experience managing its own initial public offering in her October 1990 Capital column, "Who Needs Wall Street?" About 20 states have recently made available a simplified procedure for public offerings of less than $1 million; information is available from state securities administrators. Also, my book, *Take Your Company Public!* has just been published by the New York Institute of Finance.

Drew Field
President
Capital Formation Ltd.
San Francisco

Our company handled its own IPO several years ago.

In 1966 my partners and I hired a CPA firm to set up a suggested stock plan, and a legal firm to prepare the necessary documents. We rented a meeting room at the local inn and sent out invitations to prospective investors. About 50 showed up, and 8 invested. We made oral presentations, and I fielded technical questions. Our offering comprised 90% preferred stock redeemable at 10% interest within four years. The total cost of our initial offering: $3,250.

Gustav Berle
Silver Spring, Md.

**FOREIGN EXPERIENCE**

**Patricia Galea started teaching English in Europe as a way to pay for her trips there, and she struck a gold mine. She wants to expand her services, and she wants to go legit but wonders if the French government will let her (Going Legit Overseas, April).**

Almost two years ago I quit a high-paying Silicon Valley job and packed my bags for Germany, and I can offer Galea three suggestions. First, she could find a company willing to hire her and to sponsor her application for a work permit. Once she has that, getting a residence permit should be a piece of cake. Second, she could become self-employed. She will need connections, references, and promised contracts, and she'll have to prove her expertise in the field she's entering. The industry and trade commission in the area where she plans to settle can be a valuable resource. Third, she could incorporate in France. This is similar to self-employment, but the corporation takes over liabilities, and setup costs are higher. Taxes are higher, too, and incorporation requires a capital investment that remains in the bank to cover liabilities. Unless Galea plans to hire several employees, I see no need for her to incorporate.

Stephen Maris
PowerFood Inc.
Munich, Germany

---

***Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* (800) 444-1756. *Or fax your letters to* (617) 248-8090. *We'll publish the best responses and queries.***

## RESOURCES

**PARTS IS PARTS**

I sell parts for classic cars. Customers are enthusiastic about my business until they hear I run it out of my home. They expect a showroom or a big shop, and when they don't find one, the bubble bursts. How have other people overcome the stigma of a home-based business? Should I let customers know in my advertising and other business dealings?

John Vukovich Jr.
President
Classic Car Ranch
Newport News, Va.

**"Market-research firms say that as many as 45 million people work out of their homes today, and that number is growing," says Barbara Brabec, author of *Homemade Money* (Brabec Publications, 708-717-0488). "But this problem persists. It will take time to educate the consumer about the benefits of home-based businesses." In the meantime, people working out of their homes must strike a balance, veiling that fact from the skeptical and publicizing it to the open-minded. In her book, which Network readers brought to our attention (Homework, March), Brabec emphasizes a professional image—a slick brochure, an appropriate telephone manner, a post-office box if your address might give you away.**

**Julie Lewis knows about striking the balance. "If you think working from your home is a problem, it becomes one," Lewis, president of Northwest Quality Innovations, says. "You communicate your embarrassment. Instead, communicate your pride. Toot your own horn, no pun intended." But timing is everything. Lewis has worked out of her home in Lake Oswego, Ore., for more than eight years now. While developing the Deja-Shoe, a walking shoe made of recycled materials (see "New Businesses," April), she worked with executives from such big businesses as Nike and Amoco Fabrics & Fibers, people who might have scoffed at her domestic operation. "I didn't let them know how small my company was until they got to know me. By then, it wasn't a problem." In fact, some people were impressed; Nike cofounder Bill Bowerman started from a garage himself. Nevertheless, Lewis's rule is, "Don't confess that you're a home business at the beginning."**

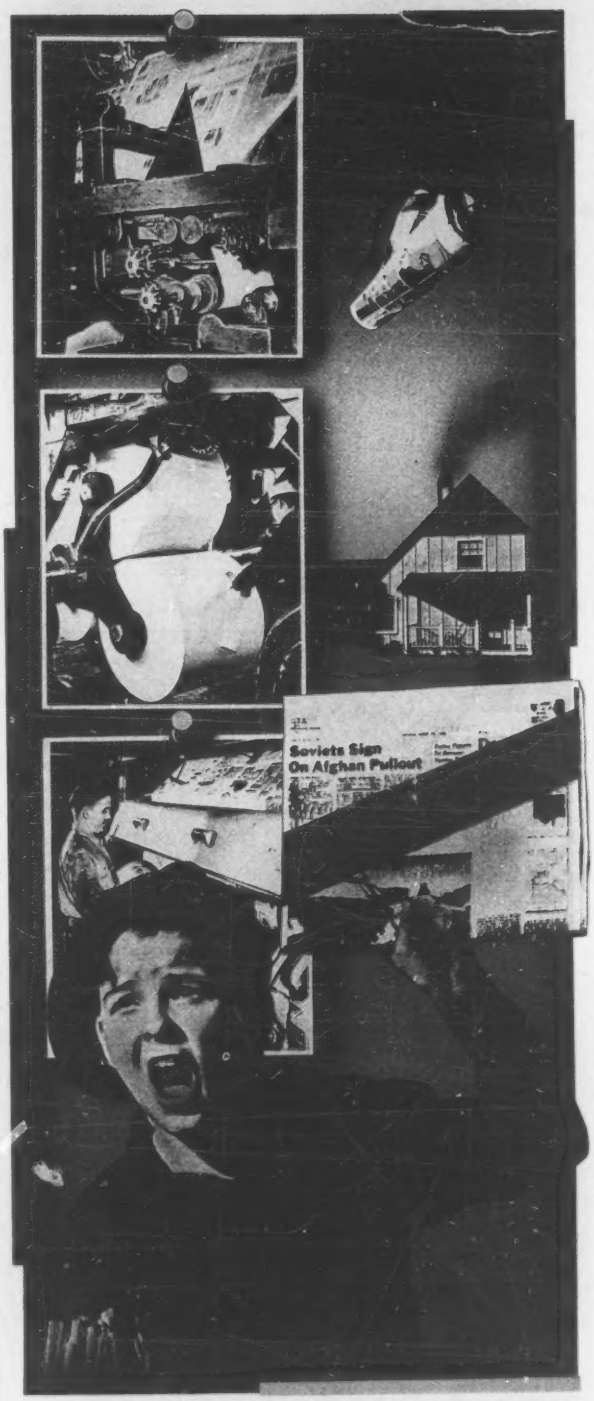
**Jim Wangers, president of Automotive Marketing Consultants Inc., in Warren, Mich., would play it even safer. "He's right not to advertise that he's home-based," he says. "Automotive restorers get involved with parts you don't often think of—headlight bezels, windshield-wiper arms. Those parts are extremely important to them. And they expect someone in the parts business to run a sophisticated showroom, nicely cataloged and inventoried. There are a lot of fake parts brought into the market, and there's nothing more mortifying to restorers than to find out they've bought a fake door handle. A big shop reassures them."**

**But, Wangers says, "restorers look everywhere for parts. And when they find a particularly hard-to-find part, there's no question they're going to buy it; it's just a matter of trusting the source." Wangers believes you can establish the necessary trust through well-worded advertising that demonstrates your knowledge, broad resources, and honesty.**

**David Brownell, editor of *Hemmings Motor News*, the bible of vintage-auto collectors, agrees. "In our classified ads, you'll find guys from Maine to California selling out of their homes," he says. "Some sophisticated shops have recently entered the market, but there are still plenty of guys who buy out odd job lots of leftover Buick shock absorbers, haul them home, and sell them through magazines like ours."**

***—Michael P. Cronin***

# THE AMERICAN DREAM




## BUSINESS FOR SALE
## SMALL-TOWN WEEKLY

**THE BUSINESS** A 125-year-old weekly newspaper located in a historic, rapidly growing rural community (population 3,500) in a Great Lakes state. A white-collar crowd continues to flock to the region covered by the paper (population 50,000), which is within an hour's drive of a major metropolis. Paid circulation of the 24-page weekly is approximately 5,700; a weekly advertising supplement is distributed free to another 15,500. Ads generate 90% of revenues.

**FINANCIAL SUMMARY**

| | 1988 | 1989 | 1990* |
|---|---|---|---|
| Gross revenues | $502,000 | $582,000 | $620,000 |
| Pretax profit | $82,000 | $113,000 | $120,000 |

*estimated

**PRICE** $950,000

**OUTLOOK** Pretty favorable: there are no direct competitors in this paper's town. As a group, community weeklies have been the fastest-growing segment of all newspapers. This paper's region has so far proved recession-resistant: unemployment continues to decrease; population, the price of homes, and the number of new businesses continue to increase. The paper's nearly 20% profit margins are excellent, says one insider who notes that margins can range from 8% to 18% for suburban weeklies.

**PRICE RATIONALE** The price includes assets necessary to assemble—but not print—a paper; a five-year renewable building lease; and two dozen or so dedicated employees who presumably will remain. Newspapers are idiosyncratic and difficult to evaluate, but some analysts say that one to one-and-a-half times gross is the right ballpark, so the price for this paper is a little high.

**PROS** The paper has doubled its revenues in the past five years without raising subscription rates. There's an opportunity for a new owner to continue with advertising supplements *and* raise subscription rates, which are cheap (roughly half the industry standard).

**CONS** Deadlines, angry letters to the editor, and a readership that might not embrace change (the current owner has been at the helm for three decades). Given that the price is no bargain, a new owner will need to be good with numbers as well as words. *—Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**
*The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Bolitho-Sterling & Associates, Kansas City, Mo., (816) 374-7645.*

**COPYRIGHT © 1991 BY GOLDHIRSH GROUP, INC.** All rights reserved. Editorial and executive offices at 38 Commercial Wharf, Boston, MA 02110. INC. (ISSN 0162-8968) is published monthly by Inc. Publishing Company, 38 Commercial Wharf, Boston, MA 02110. Subscription rate for U.S. and Possessions, 12 issues $19. All subscription correspondence should be addressed to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Please allow at least six weeks for change of address. Include your old address as well as new, and enclose if possible an address label from a recent issue. Single-copy requests: call (617) 248-8426. Second class postage paid at Boston, MA, and additional mailing offices. Postage paid at Mississauga, Ontario. POSTMASTER: Send address changes to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Material in this publication must not be stored or reproduced in any form without permission. Requests for permission should be directed to Permissions Coordinator, INC., 38 Commercial Wharf, Boston, MA 02110. Inc. is a registered trademark of Goldhirsh Group, Inc.
JULY 1991 VOL. 13 NO. 7



ILLUSTRATION: CARL WESLEY